

Message Text

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ACTION OPIC-06

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SUBJ: POTENTIAL U.S. AND OTHER FOREIGN INVESTMENT

REF: A. STATE 187542, B. COLOMBO A-63, C. COLOMBO A-21

1. STATE GEM CORPORATION

THE DREDGING PROPOSAL MENTIONED IN PARA 2, REF A, IS A PROJECT OF THE STATE GEM CORPORATION. IT WOULD INVOLVE STRIP MINING THE BED OF THE UPPER REACHES OF THE WALAWE RIVER IN SOUTH-CENTRAL SRI LANKA BEFORE THE AREA IS FLOODED BY A HYDRO-ELECTRIC DAM TO BE BUILT BY THE RUSSIANS. THIS AREA IS REPORTEDLY RICH IN GEMS AND OTHER MINERALS. THE GEM CORPORATION S PROPOSAL IS PRESENTLY UNDER STUDY BY THE MINISTRY OF FINANCE AND PLANNING. UNTIL MINISTRY AND THEN CABINET APPROVAL ARE OBTAINED. HOWEVER, NO DETAILS OF THE PROJECT WILL BE MADE PUBLIC, NOR CAN THE CORPORATION ENTER INTO NEGOTIATIONS WITH POTENTIAL LOCAL AND/OR FOREIGN COLLABORATORS. THE EMBASSY WILL REPORT FURTHER ON THIS PROJECT AS DETAILS BECOME AVAILABLE.

2. CEYLON TYRE CORPORATION

THE CEYLON TYRE CORPORATION (A GOVERNMENT ENTITY) IS LOOKING FOR A FOREIGN PARTNER TO TAKE UP TO A 49 PERCENT EQUITY
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POSITION IN THE CORPORATION AND TO ASSUME MANAGERIAL CONTROL OF THE TIRE FACTORY. THE FACTORY, WHICH PRODUCES MOTOR VEHICLE TIRES AND TUBES, WAS COMPLETED IN 1967 WITH RUSSIAN FINANCIAL AND TECHNICAL ASSISTANCE. SHORTLY AFTER THE JULY 1977 ELECTIONS, THE CORPORATION S NEW MANAGEMENT APPROACHED GOODYEAR REGARDING POSSIBLE COLLABORATION. THE EMBASSY UNDERSTANDS THAT GOODYEAR DECIDED NOT TO ENTER INTO PARTNERSHIP WITH THE TYRE CORPORATION.

SUBSEQUENTLY, FIRESTONE AND SEVERAL EUROPEAN TIRE MANUFACTURERS BEGAN NEGOTIATIONS WITH THE TYRE CORPORATION. NO COLLABORATOR HAS BEEN SELECTED AS YET, THE EMBASSY WILL REPORT FURTHER.

3. OTHER INVESTMENT POSSIBILITIES

EARLIER THIS YEAR, THE EMBASSY REPORTED ON INVESTMENT POSSIBILITIES IN THE PRODUCTION OF GRAPHITE LUBRICANTS (COLOMBO 0488) AND MINERAL SANDS (COLOMBO 0529). THE JOSEPH DIXON CRUCIBLE COMPANY HAS EXPRESSED AN INTEREST IN THE GRAPHITE PROPOSAL. AIR CEYLON IS LOOKING FOR A JOINT VENTURE PARTNER TO ASSUME MANAGEMENT CONTROL (COLOMBO 2631 AND PREVIOUS), HUGHES AIRWEST SEEMS TO BE THE ONLY U.S. FIRM STILL IN THE RUNNING. LAST YEAR THE EMBASSY REPORTED ON JOINT VENTURE INVESTMENT OPPORTUNITIES IN THE MANUFACTURE OF CIGARETTES (77 COLOMBO 2999) AND OF ELECTRONIC COMPONENTS, GARMENTS, LIGHT ENGINEERING PRODUCTS, AND RUBBER GOODS (77 COLOMBO 3493). AS FAR AS THE EMBASSY KNOWS, NO U.S. FIRMS RESPONDED TO THESE OPPORTUNITIES.

4. AGRICULTURAL POSSIBILITIES

SRI LANKA S MAJOR DEVELOPMENT PROJECT IS THE AMBITIOUS MAHAWELI IRRIGATION/ HYDROELECTRIC SCHEME WHICH IS EXPRECTED TO BRING UP TO 900,000 ACRES UNDER IRRIGATION. IN A RECENT SPEECH, THE MINISTER OF IRRIGATION, POWER, AND HIGHWAYS, GAMINI DISSANAYAKE, SAID THAT LAND SETTLEMENT IN THE MAHAWELI AREA WILL NOT BE LIMITED

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TO SMALL FARMERS BUT MAY INCLUDE LARGER SCALE ACTIVITIES SUCH AS DAIRY, CATTLE, SUGAR, COTTON AND POSSIBLY COMMERCIAL PRODUCTION VENTURES WITH FOREIGN PARTICIPATION.

5. FREE TRADE ZONE

THE CURRENT POLICY OF THE GOVERNMENT OF SRI LANKA (GSL) IS TO PLACE ALL NEW FOREIGN INVESTMENT UNDER THE AUTHORITY OF THE GREATER COLOMBO ECONOMIC COMMISSION (GCEC) (SEE REFS B AND C). THE GCEC S MAIN FUNCTION IS TO SUPERVISE SRI LANKA S NEW FOREIGN TRADE ZONE NORTH OF COLOMBO. WHILE FOREIGN INVESTORS ARE S GRONGLY ENCOURAGED TO ESTABLISH THEMSELVES WITHIN THE ZONE, THE GCEC HAS THE LEGAL AUTHORITY TO GRANT ZONE BENEFITS TO INVESTMENT PROJECTS THROUGHOUT THE COUNTRY. ACCORDING TO PRESS REPORTS, SOME 25 FOREIGN COMPANIES (LARGELY GARMENT MANUFACTURERS) HAVE RECEIVED GCEC PERMISSION TO SET UP FACTORIES IN THE ZONE. SEVERAL AMERICAN AND AMERICAN-AFFILIATED FIRMS ARE AMONG THE TWENTY-FIVE. INFRASTRUCTURE DEVELOPMENT IN THE ZONE, HOWEVER, IS MOVING SLOWLY, AND A NUMBER OF FIRMS HAVE COMPLAINED ABOUT DELAYS AND BUREAUCRATIC RED TAPE.

6. INVESTOR PROBLEMS

SOME OF THE PROBLEMS EXPERIENCED BY FOREIGN INVESTORS RESULT FROM INADEQUATE INVESTIGATION OF LOCAL CONDITIONS. INTERESTED AMERICAN INVESTORS SHOULD PROCEED WITH CAUTION AND ONLY AFTER HAVING MADE A CAREFUL, ON-THE-SPOT STUDY OF INVESTMENT PROSPECTS.

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